

PERAC AUDIT REPORT



Waltham Contributory Retirement System

JAN. 1, 2004 - DEC. 31, 2006



TABLE OF CONTENTS

Letter from the Executive Director	1
Explanation of Finding and Recommendation	2
Statement of Ledger Assets and Liabilities.....	3
Statement of Changes in Fund Balances	4
Statement of Receipts.....	5
Statement of Disbursements.....	6
Investment Income	7
Schedule of Allocation of Investments Owned.....	8
Supplementary Investment Regulations	9
<u>Notes to Financial Statements:</u>	
Note 1 - Summary of Plan Provisions	12
Note 2 - Significant Accounting Policies	19
Note 3 - Supplementary Membership Regulations.....	20
Note 4 - Administration of the System	23
Note 5 - Actuarial Valuation and Assumptions.....	24
Note 6 - Membership Exhibit.....	25

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

DOMENIC J. F. RUSSO, *Chairman* | A. JOSEPH DeNUCCI, *Vice Chairman*
KENNETH J. DONNELLY | JAMES M. MACHADO | DONALD R. MARQUIS | THOMAS TRIMARCO

JOSEPH E. CONNARTON, *Executive Director*

July 20, 2007

The Public Employee Retirement Administration Commission has completed an examination of the Waltham Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2004 to December 31, 2006. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the finding presented in this report.

In closing, I acknowledge the work of examiners James Tivnan and Carol Niemira who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

Members' Contributions Collected through Payroll Deductions

PERAC auditors sampled members' contributions to determine that the correct rates are being assigned and withheld, and that the additional 2% deduction is withheld from those members who make over \$30,000 and were hired after January 1, 1979.

- The formula employed to calculate the additional 2% deduction from income over \$30,000 per year, prorated on a per payroll basis, was not applied on a consistent basis. Members employed primarily by the school department were not synchronized with the calculation applied to the overwhelming majority of members on the City payroll system.
- The Waltham Housing Authority inconsistently applied the additional 2% deduction from income over \$30,000 per year, prorated on a per payroll basis.
- The City and School Department payroll both contain pay codes that the Retirement System has not determined whether they qualify as regular compensation. The Retirement System must be more actively involved in properly classifying all pay codes available and used in the payroll system.

Recommendation: The System must comply with G.L. c. 32, § 22(1)(b), and PERAC Memo #43/1999, which discusses the additional 2% deductions. A more extensive review process must be considered to ensure compliance with these requirements. The System should be notified of all new pay codes to determine whether they qualify as retirement compensation. In addition, the System should periodically monitor more complete payroll reports for compliance. All persons charged with processing retirement deductions should receive copies of correspondence relating to new regulations and other changes involving eligibility and contribution rates.

Board Response:

When this issue first came to light, the City Auditor's department, the School Department business manager, and the Waltham Housing payroll clerk were contacted to address the matter with them. The City Auditor's Department, together with the MIS Department, is in the process of addressing the 2% deduction, with a possible year-end make-up report. The Auditor's Department will also take a look at the different pay codes used, and will supply a listing to the Retirement Board for their review on whether any qualify as regular compensation.

The Waltham Retirement Board has taken the necessary steps to address and correct this finding.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding the finding.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,			
	2006	2005	2004
Net Assets Available to Pay Benefits:			
Cash	\$2,168,797	\$4,364,273	\$2,803,799
Short Term Investments	0	667,374	73,803
Fixed Income Securities	0	28,517,948	27,051,606
Equities	35,158,828	31,499,400	38,247,026
Pooled Domestic Equity Funds	23,954,435	23,310,340	25,383,333
Pooled International Equity Funds	28,207,412	21,745,018	17,188,888
Pooled Domestic Fixed Income Funds	30,253,143	6,790,349	7,579,817
Pooled International Fixed Income Funds	7,272,405	5,345,978	6,145,193
Pooled Alternative Investment Funds	19,865,837	13,064,473	5,188,555
Pooled Real Estate Funds	8,837,550	4,856,701	3,077,508
Interest Due and Accrued	8,492	273,489	239,756
Accounts Receivable	94,557	497,349	26,545
Accounts Payable	(275,529)	(1,206,189)	(550,778)
Total	<u>\$155,545,927</u>	<u>\$139,726,502</u>	<u>\$132,455,051</u>
Fund Balances:			
Annuity Savings Fund	\$43,328,378	\$40,146,919	\$37,201,816
Annuity Reserve Fund	13,285,685	13,652,525	14,070,122
Pension Fund	(6,955,611)	(2,534,600)	320,804
Military Service Fund	2,175	2,162	7,783
Expense Fund	0	0	0
Pension Reserve Fund	105,885,301	88,459,497	80,854,527
Total	<u>\$155,545,927</u>	<u>\$139,726,502</u>	<u>\$132,455,051</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2004)	\$34,079,289	\$14,830,800	\$5,024,362	\$7,736	\$0	\$68,257,923	\$122,200,110
Receipts	3,919,536	434,920	11,152,554	46	831,487	12,597,754	28,936,298
Inter Fund Transfers	(659,461)	660,611	0	0	0	(1,150)	0
Disbursements	(137,548)	(1,856,209)	(15,856,112)	0	(831,487)	0	(18,681,357)
Ending Balance (2004)	37,201,816	14,070,122	320,804	7,783	0	80,854,527	132,455,051
Receipts	4,332,937	412,535	11,730,961	13	894,283	8,775,442	26,146,171
Inter Fund Transfers	(1,063,105)	1,068,924	1,170,287	(5,634)	0	(1,170,473)	0
Disbursements	(324,728)	(1,899,057)	(15,756,652)	0	(894,283)	0	(18,874,720)
Ending Balance (2005)	40,146,919	13,652,525	(2,534,600)	2,162	0	88,459,497	139,726,502
Receipts	4,670,974	406,877	11,772,818	13	1,091,100	17,426,396	35,368,178
Inter Fund Transfers	(1,175,091)	1,175,683	0	0	0	(592)	0
Disbursements	(314,424)	(1,949,400)	(16,193,829)	0	(1,091,100)	0	(19,548,753)
Ending Balance (2006)	<u>\$43,328,378</u>	<u>\$13,285,685</u>	<u>(\$6,955,611)</u>	<u>\$2,175</u>	<u>\$0</u>	<u>\$105,885,301</u>	<u>\$155,545,927</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005	2004
Annuity Savings Fund:			
Members Deductions	\$4,126,861	\$3,847,989	\$3,640,838
Transfers from Other Systems	202,900	178,788	18,124
Member Make Up Payments and Re-deposits	102,241	87,854	56,128
Member Payments from Rollovers	4,010	0	2,132
Investment Income Credited to Member Accounts	<u>234,963</u>	<u>218,306</u>	<u>202,314</u>
Sub Total	<u>4,670,974</u>	<u>4,332,937</u>	<u>3,919,536</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>406,877</u>	<u>412,535</u>	<u>434,920</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	101,682	195,313	190,070
Received from Commonwealth for COLA and Survivor Benefits	263,136	549,648	525,883
Pension Fund Appropriation	<u>11,408,000</u>	<u>10,986,000</u>	<u>10,436,601</u>
Sub Total	<u>11,772,818</u>	<u>11,730,961</u>	<u>11,152,554</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	<u>13</u>	<u>13</u>	<u>46</u>
Sub Total	<u>13</u>	<u>13</u>	<u>46</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>1,091,100</u>	<u>894,283</u>	<u>831,487</u>
Sub Total	<u>1,091,100</u>	<u>894,283</u>	<u>831,487</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	53,847	18,552	55,688
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	18,510	1,500	162
Miscellaneous Income	640	542	0
Excess Investment Income	<u>17,353,399</u>	<u>8,754,848</u>	<u>12,541,905</u>
Sub Total	<u>17,426,396</u>	<u>8,775,442</u>	<u>12,597,755</u>
Total Receipts	<u>\$35,368,178</u>	<u>\$26,146,171</u>	<u>\$28,936,298</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2006	2005	2004
Annuity Savings Fund:			
Refunds to Members	\$247,702	\$93,659	\$75,829
Transfers to Other Systems	<u>66,722</u>	<u>231,069</u>	<u>61,720</u>
Sub Total	<u>314,424</u>	<u>324,728</u>	<u>137,548</u>
Annuity Reserve Fund:			
Annuities Paid	1,944,646	1,829,458	1,815,746
Option B Refunds	<u>4,755</u>	<u>69,599</u>	<u>40,463</u>
Sub Total	<u>1,949,400</u>	<u>1,899,057</u>	<u>1,856,209</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	10,502,503	10,227,121	10,164,494
Survivorship Payments	650,526	588,851	557,892
Ordinary Disability Payments	188,945	181,659	173,744
Accidental Disability Payments	2,815,981	2,716,157	2,827,591
Accidental Death Payments	1,032,169	1,011,524	1,032,133
Section 101 Benefits	153,169	141,595	131,305
3 (8) (c) Reimbursements to Other Systems	260,690	249,877	251,588
State Reimbursable COLA's Paid	589,846	639,869	717,365
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>16,193,829</u>	<u>15,756,652</u>	<u>15,856,112</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	15,000	14,992	15,081
Salaries	214,939	203,643	163,849
Legal Expenses	43,753	13,352	23,557
Medical Expenses	0	0	0
Travel Expenses	7,842	10,902	9,693
Administrative Expenses	24,485	37,047	42,220
Furniture and Equipment	0	0	107
Management Fees	573,029	414,607	394,036
Custodial Fees	81,999	83,589	61,298
Consultant Fees	98,083	95,000	95,550
Service Contracts	23,868	12,818	17,726
Fiduciary Insurance	<u>8,103</u>	<u>8,333</u>	<u>8,371</u>
Sub Total	<u>1,091,100</u>	<u>894,283</u>	<u>831,487</u>
Total Disbursements	<u>\$19,548,753</u>	<u>\$18,874,720</u>	<u>\$18,681,357</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005	2004
Investment Income Received From:			
Cash	\$179,443	\$121,270	\$34,009
Short Term Investments	0	0	0
Fixed Income	1,677,136	1,595,398	1,396,126
Equities	372,660	237,406	274,529
Pooled or Mutual Funds	2,996,496	2,306,571	1,527,927
Commission Recapture	8,953	0	0
Total Investment Income	<u>5,234,688</u>	<u>4,260,645</u>	<u>3,232,590</u>
Plus:			
Realized Gains	1,918,125	3,732,385	3,265,531
Unrealized Gains	15,612,102	9,490,367	12,526,616
Interest Due and Accrued on Fixed Income Securities - Current Year	8,492	273,489	239,756
Sub Total	<u>17,538,719</u>	<u>13,496,241</u>	<u>16,031,904</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	(494,163)	(441,801)	(322,879)
Realized Loss	(1,241,574)	(3,046,250)	(3,532,837)
Unrealized Loss	(1,677,830)	(3,749,094)	(1,151,069)
Interest Due and Accrued on Fixed Income Securities - Prior Year	(273,489)	(239,756)	(247,036)
Sub Total	<u>(3,687,055)</u>	<u>(7,476,901)</u>	<u>(5,253,821)</u>
Net Investment Income	<u>19,086,352</u>	<u>10,279,985</u>	<u>14,010,672</u>
Income Required:			
Annuity Savings Fund	234,963	218,306	202,314
Annuity Reserve Fund	406,877	412,535	434,920
Military Service Fund	13	13	46
Expense Fund	1,091,100	894,283	831,487
Total Income Required	<u>1,732,953</u>	<u>1,525,137</u>	<u>1,468,768</u>
Net Investment Income	<u>19,086,352</u>	<u>10,279,985</u>	<u>14,010,672</u>
Less: Total Income Required	<u>1,732,953</u>	<u>1,525,137</u>	<u>1,468,768</u>
Excess Income To The Pension Reserve Fund	<u>\$17,353,399</u>	<u>\$8,754,848</u>	<u>\$12,541,905</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2006			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$2,168,797	1.4%	
Fixed Income	0	0.0%	33%
Equities	35,158,828	22.6%	56%
Pooled Domestic Equity Funds	23,954,435	15.4%	56%
Pooled International Equity Funds	28,207,412	18.1%	11%
Pooled Domestic Fixed Income Funds	30,253,143	19.4%	29%
Pooled International Fixed Income Funds	7,272,405	4.7%	4%
Pooled Alternative Investment Funds	19,865,837	12.8%	5%
Pooled Real Estate Funds	8,837,550	5.7%	6%
Grand Total	<u>\$155,718,407</u>	<u>100.0%</u>	

For the year ending December 31, 2006, the rate of return for the investments of the Waltham Retirement System was 13.93%. For the five-year period ending December 31, 2006, the rate of return for the investments of the Waltham Retirement System averaged 8.34%. For the twenty-two-year period ending December 31, 2006, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Waltham Retirement System was 10.26%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Waltham Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

April 18, 2007

16.08

In accordance with Investment Guideline 99-2, the Waltham Retirement Board is authorized to make a modest modification to its domestic equity mandate with State Street Global Advisors. Under its previous consultant, the Board had been advised to establish positions in both the SSgA Russell 1000 Value Index Fund and the SSgA Russell 1000 Growth Index Fund. By now consolidating the two funds into a single investment in the SSgA Russell 1000 Index Fund, the Board achieves the same investment strategy but with economies of scale.

August 21, 2006

16.08

The Waltham Retirement Board is authorized to invest in State Street Global Advisors' Lehman Aggregate Bond Index Fund on a temporary basis pending the completion of a competitive search process to find a replacement manager for the fixed income assets currently managed by Credit Suisse Asset Management. CSAM has announced plans to phase out nearly all of its traditional asset management services over the coming months. The Board selected the SSgA product in consideration of its existing satisfactory relationship with the firm and its index products. This authorization will extend through November 30, 2006.

April 9, 2001

16.08

1. Exemption of the Board and INVESCO from the second sentence of 840 CMR 17.04(1)(c) – This Regulation deals with the use of non-public information by managers and consultants. PERAC recognizes that, in making the investments contemplated by the INVESCO Funds delineated above, that sentence, which prohibits action until information is publicly disseminated, represents an undue burden on the ability of the Partnerships to operate. Consequently, the Waltham Retirement Board request as it applies to 840 CMR 17.04(1)(c) is approved.

2. Exemption of the Board and INVESCO from 840 CMR 17.04(6), except as otherwise provided for in the Partnership Agreement and/or as disclosed in INVESCO's Form ADV – This Regulation deals with the Priority of Transactions and an investment manager's obligation to prioritize board transactions and provide the board with the opportunity to act prior to the manager acting, if applicable. PERAC recognizes that this Regulation may impede the ability of partnerships such as INVESCO's to operate. Upon receipt of a copy of the provisions of the Partnership Agreement and/or disclosures in the INVESCO Form ADV, the Commission will approve the Waltham request as it applies to 840 CMR 17.04(6).

3. Exemption of the Board and INVESCO from 840 CMR 17.04(7)(a), not approved.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

4. Exemption of the Board and INVESCO from 840 CMR 19.01(7)(a)(6) with respect to the management fees and the General Partner's Carried Interest to be received by the manager or the General Partner pursuant to the (a) Subscription Agreement, (b) Agreement as defined in the side letter, and/or (c) Manager's Investment Advisory Agreement with respect to the Board's commitments to the Partnerships – PERAC recognizes the fact that the market, at the present time, is such that fee limitations, as outlined in these Regulations, result in limiting the number of partnerships available to the retirement boards. Consequently, the Waltham Retirement Board request, as it applies to 840 CMR 19.01(7)(a)(6), is approved.

5. Exemption of the Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a), 21.01(4), 21.01(5), 21.01(6), and 21.01(9) to the extent as otherwise permitted under the applicable agreement – These Regulations prohibit certain transactions as follows:

21.01(2) prohibits the sale of securities not owned by the system at the time of the sale (short sales); 21.01(3)(a) permits the use of forward currency contracts in limited circumstances; 21.01(4) prohibits the use of call options; 21.01(5) prohibits the purchase of options other than as required to close out option positions; 21.01(6) prohibits investment in lettered or restricted stock (with the exception of those investments that are venture capital investments, and; 21.01(9) prohibits loans to employees or individuals. PERAC has received a letter dated August 22, 2000 from INVESCO that clarifies the possible use of options, futures, or other derivatives. In pertinent part, the letter states as follows:

“Although the above referenced funds do not expect to use options, futures, or other derivatives other than infrequently, if at all, futures and/or options would be used only for non speculative true hedging purposes. In general, we would anticipate their use, if at all, for among other reasons to protect downside risk on public securities of companies distributed to the funds by the underlying portfolio funds we invest in and where a commitment to a fund was made in a non US currency to limit currency risk of the funds.”

PERAC approves the exemption of the Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a), 21.01(4), and 21.01(5) for the limited purpose of protecting downside risk on public securities of companies distributed to the funds by underlying portfolio funds and to limit currency risk of the funds where a commitment to a fund was made in a non US currency.

January 18, 2001

16.08

In accordance with PERAC Investment Guideline 99-2, the Waltham Retirement Board may modify its existing small-cap value mandate with Earnest Partners to include mid-cap value. Following the termination of its existing mid-cap value manager, the Board has decided not to hire a new manager for that mandate but to consolidate its small-cap value and mid-cap value mandates under the management of Earnest Partners. The Board has had a positive relationship with Earnest Partners, with favorable investment results, and is comfortable with the firm's capabilities in mid-cap value. As a result of this modification, Earnest Partners will have greater flexibility in its investment process and the Board will achieve consolidation in its investment structure as well as reduced management expenses.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

October 13, 1993

16.02(4)

The board may employ a custodian bank and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one year .08% of the value of the fund.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Waltham Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, § 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, § 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, § 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age.”

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus an annual supplement per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000.00 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Waltham Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

August 22, 2003

Buy-Back Regulation on the Calculation of Creditable Service for Members Who Purchase Past Service Rendered

Any individual who is an active member of the Waltham Retirement System as of 8/22/03 may purchase any past service rendered as a part-time, provisional, temporary, temporary provisional, seasonal or intermittent employee in the City of Waltham, Waltham School Department and/or Waltham Housing Authority, provided that the member remits to the Waltham Retirement Board the appropriate amount of contributions that would have been withheld, together with regular interest, had he or she been a member of the System at the time the service was rendered. It shall be the sole responsibility of the member to obtain, and provide to the Board, verification of this past service rendered, including but not limited to payroll records indicating the amount of compensation received and amount of hours worked. In the event that any or all of such original documentation is unavailable, the Board may exercise its discretion pursuant to M.G.L. c. 32, § 20(5)(c)(I), on a case by case basis, to accept alternative documentation to verify said service and compensation.

Buy-back for members who purchase such past service rendered as a part-time, provisional, temporary, temporary provision, seasonal or intermittent employee creditable service shall be calculated based on 1040 hours of compensated employment in the aggregate being the equivalent of one (1) year of creditable service. Members shall be credited with full months and full years of past service rendered and purchased.

Creditable Service

Members of the Waltham Retirement System shall receive creditable service in the following manner:

- For a member in service who is employed in a full-time capacity while an employee in the City of Waltham, he/she will receive one year of creditable service for each full calendar year in which the employee is receiving regular compensation for said service.
- For a member in service who is employed in a part-time capacity throughout his/her entire career while an employee in the City of Waltham, he/she will receive one year of creditable service for each full calendar in which the employee is receiving regular compensation for said service.
- For a member in service who has been employed in both a full-time and part-time capacity while an employee in the City of Waltham, the member will receive full-time credit for full-time service, and prorated credit for part-time service based on the full-time equivalency for the position.
- For a member who is employed in a part-time capacity throughout his/her entire career while an employee in the City of Waltham, but who either purchases past refunded service,

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

or has transferred into the Waltham Retirement System service, rendered in a full-time capacity, the member's part-time service shall be prorated based on the full-time equivalency of the position.

- In the case of School Department or City employees whose full-time employment requires them to work from on or about September 1 to on or about June 30, said employees shall receive one of creditable service for each full month the employee is receiving regular compensation, with 10 months being the equivalent of one year of creditable service.

Membership

Any individual who is permanently employed twenty (20) hours or more for the City of Waltham, the Waltham School Department or the Waltham Housing Authority shall become a member of the Waltham Retirement System.

May 17, 1996

Forms

Approval for continued use of the Waltham Retirement Board's Beneficiary Blank or Change of Beneficiary Blank.

March 27, 1995

Membership

Acceptance into the Retirement System the job title of "Substitute Service Clerk", which is a full time ten-month position in the School Department.

April 27, 1989

Membership

Individuals employed as School Traffic Supervisors, School Physicians and School Dentists of the City of Waltham shall not be eligible for membership in the Waltham Retirement System. This regulation shall take effect March 29, 1989, and shall not apply to those individuals whose membership was accepted prior to March 29, 1989.

January 3, 1989

Creditable Service - School Traffic Supervisors

Individuals employed as School Traffic Supervisors in the Police Department of the City of Waltham shall be granted creditable service equal to twelve (12) months for each year of employment if and only if their employment equals that of the total number of hours prescribed by the City of Waltham for that job title or position. Such individual, if at any time, accepts employment in another department of any political subdivision of the Commonwealth of Massachusetts shall be granted a maximum of six (6) months for each year of employment as a School Traffic Supervisor.

(AMENDED APRIL 27, 1989)

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

December 21, 1984

Rules & Regulations

- Any member who desires to establish credit for part-time employment before becoming a member must petition the Board for such credit. All credit must be equivalent to one half of the full time permanent job classification regular hours or days for which the member was employed part time;
- Any member, who desires to retire under section 56-60 of c. 32 of the M.G.L., must have payroll data evidence to support and verify that such member and public employment prior to July 1, 1939;
- Purchases of unused sick leave; excess over 200 days while still employed – buyback is not subject to retirement deductions or treatment as regular compensation;
- Part-time employees excluded from membership by Board vote: library pages, recreation department seasonal employees (become eligible after six (6) months); summer playground personnel; winter skating personnel; cemetery department - temporary, seasonal help. Most summer workers become eligible after six (6) months. School transportation, nurses, school cafeteria employees who do not work at least 3 1/2 hours per school day regularly. Library department employees classified as library associates, library department part-time custodians. Members of Boards and commissions paid on a per meeting basis. Exceptions: Women School Traffic Supervisors
- Part-time positions which can pay an annual rate of compensation: clerk recreation department, Board of Assessors (2 Part Time Employees), cafeteria workers who work regularly at least 3 1/2 hours per school day.
- The Retirement Board will allow the following types of employed persons to buy back their time: Said employees shall include but not be limited to part-time permanent with least twenty (20) hours per week, full time temporary laborers-full time intermittent.

(AMENDED MARCH 10, 1997).

December 2, 2005

Continuing Education and Investment Research Expense Regulation

The Board has adopted a Supplementary Regulation under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). (Regulation available upon written request.)

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the City Auditor who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Dennis Quinn

Appointed Member: Thomas Magno Term Expires: 2/21/08

Elected Member: William MacDonald, Chairman Term Expires: 12/19/08

Elected Member: John Gorman Term Expires: 6/30/08

Appointed Member: William Wiggin Term Expires: 1/5/09

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	\$50,000,000 Fiduciary and
Ex-officio Member:)	\$1,000,000 Fidelity Policy
Elected Member:)	through MACRS (St. Paul Travelers
Appointed Member:)	and Surety Co. of America; National
Staff Employee:)	Union Fire Insurance Co. of
)	Pittsburgh, PA; Arch Insurance Co.)

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Buck Consultants, LLC as of January 1, 2006.

The actuarial liability for active members was	\$115,939,325
The actuarial liability for retired members was	<u>151,225,525</u>
The total actuarial liability was	267,164,850
System assets as of that date were	<u>136,645,912</u>
The unfunded actuarial liability was	<u>\$130,518,938</u>
 The ratio of system's assets to total actuarial liability was	 51.1%
As of that date the total covered employee payroll was	\$43,804,722

The normal cost for employees on that date was 8.2% of payroll

The normal cost for the employer was 5.7% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.0% per annum
Rate of Salary Increase: 5.0% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2006

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2006	\$136,645,912	\$267,164,850	\$130,518,938	51.1%	\$43,804,722	298.0%
1/1/2005	\$132,657,305	\$252,142,463	\$119,485,158	52.6%	\$42,282,485	282.6%
1/1/2004	\$132,381,882	\$241,741,616	\$109,359,734	54.8%	\$40,324,076	271.2%
1/1/2003	\$123,352,105	\$232,487,351	\$109,135,246	53.1%	\$38,317,908	284.8%
1/1/2001	\$123,997,853	\$196,626,146	\$72,628,293	63.1%	\$38,264,636	189.8%
1/1/2000	\$127,180,392	\$183,662,873	\$56,482,481	69.2%	\$35,476,982	159.2%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Retirement in Past Years										
Superannuation	10	18	15	19	53	88	14	12	11	15
Ordinary Disability	0	1	1	3	0	1	1	0	2	0
Accidental Disability	1	1	1	1	1	2	5	3	1	0
Total Retirements	11	20	17	23	54	91	20	15	14	15
Total Retirees, Beneficiaries and Survivors	766	762	763	763	796	867	836	810	793	782
Total Active Members	869	897	903	897	957	897	916	917	892	936
Pension Payments										
Superannuation	\$5,761,973	\$5,769,019	\$6,170,697	\$6,849,797	\$7,127,378	\$7,915,345	\$10,124,685	\$10,164,494	\$10,227,121	\$10,502,503
Survivor/Beneficiary Payments	280,141	317,476	345,637	418,882	455,714	490,082	511,169	557,892	588,851	650,526
Ordinary Disability	112,013	97,434	99,175	151,251	112,449	159,335	167,411	173,744	181,659	188,945
Accidental Disability	2,053,255	2,078,898	2,313,658	2,312,606	2,353,571	2,631,974	2,684,642	2,827,591	2,716,157	2,815,981
Other	2,089,641	2,022,896	1,860,077	1,876,369	2,028,084	2,006,235	1,941,046	2,132,392	2,042,865	2,035,874
Total Payments for Year	<u>\$10,297,023</u>	<u>\$10,285,723</u>	<u>\$10,789,245</u>	<u>\$11,608,905</u>	<u>\$12,077,197</u>	<u>\$13,202,971</u>	<u>\$15,428,953</u>	<u>\$15,856,112</u>	<u>\$15,756,652</u>	<u>\$16,193,829</u>

PERAC

Five Middlesex Avenue | Third Floor
Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

TTY: 617.591.8917 | Web: www.mass.gov/perac